PITTWATER COUNCIL

Policy – No 115	Adopted:	OM 03.5.1999
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	Revoked:	

TITLE:	**LOAN BORROWING POLICY**
STRATEGY:	**Business Management**
BUSINESS UNIT:	**Finance and IT**
RELEVANT LEGISLATION:	**None**
RELATED POLICIES:	**None**

Objective

To provide a disciplined approach to the supplementary financing of the Council's Capital Improvements Program through the use of loan funds.

While it has historically been considered desirable to keep debt levels as low as possible, borrowing is a valid and appropriate option available to Council to help finance ongoing infrastructure requirements and is justified due to the greater cost in future years through deferring the spending activity.

A zero debt policy is often inappropriate for local government as it implies that the current ratepayers are expected to meet the full cost of infrastructure assets, while in reality most of the benefit will actually be gained by future ratepayers. On inter-generational grounds it is considered that additional borrowings can be considered to fund enhancement capital expenditure, and such capital expenditure gives rise to infrastructure enhancement that benefits future as well as existing ratepayers. This way, the cost of the asset is matched by the benefits from consumption of service over the life of the asset, and it promotes inter-generational equity, which is only reasonable given the future benefit of the asset.

Policy Statement

Given the Objectives above, in terms of Council's Loan Borrowing Program;

1. Council recognises that loan borrowing plays an important part in the local government financial structure.

2. Council recognises that it is equitable to the ratepayers that the liability for the capital costs of infrastructure should be distributed over the period during which the people enjoy the benefits derived there from.

3. Council, therefore, adopts the principle of using loan funding as a resource to fund the replacement and creation of infrastructure that has a reasonably long life expectancy.

4. The use of loan funds will, in the main, be limited to the construction, alteration and or renewal of buildings, the acquisition of income producing assets (including land) and the acquisition of new or renewal of existing infrastructure assets which have a life expectancy greater than ten years.

5. Loan borrowings will generally be limited to a level where the ratio of net debt service costs (principal and interest) to Operating Revenue does not exceed 5.5%.